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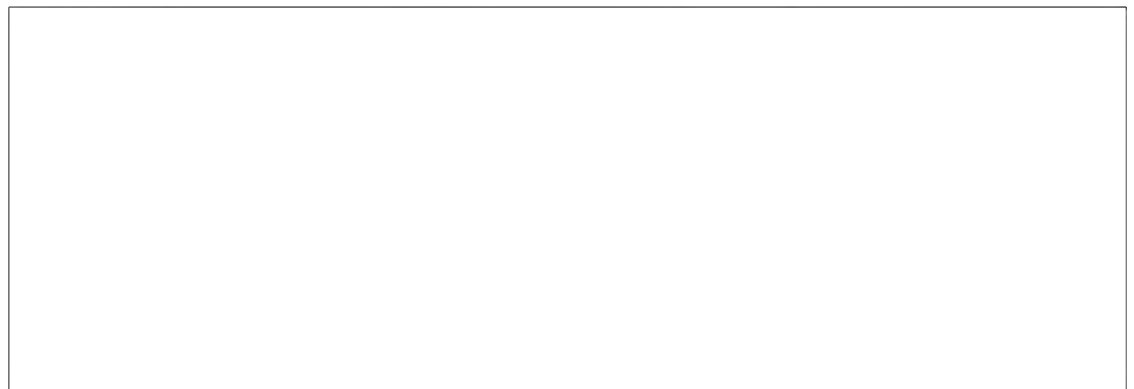
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SPAIN: National Elections Called

Spanish Prime Minister Suarez' decision to gamble on a national election early in the new year is a measure of his need for a stable governing majority in the trying times that clearly lie ahead. It also reflects renewed confidence in his personal popularity and, probably, a perception of weakness in his major rivals, the Socialists. The election will dispel some of the uncertainty that has stifled recent political and economic initiatives. It is unlikely to give any single party a majority, however, and political stability will probably continue to depend on cooperation between the two major parties-- Suarez' Centrists and the Socialists.

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In an announcement last night following promulgation of the new constitution, Suarez set the legislative election for 1 March and municipal elections for 3 April.

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//The decision comes as somewhat of a surprise, given voter apathy in the referendum earlier this month and continued Socialist strength in opinion polls. Compelling tactical considerations apparently persuaded Suarez to seek a mandate now rather than to opt for the comparative safety of parliamentary investiture.

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//Suarez has reportedly been buoyed by recent polls showing "spectacular" improvement in his personal image. Although some polls still show the Socialists edging out Suarez' party in popularity, Suarez seems confident that he will garner enough of the large bloc of undecided voters to tip the balance.//

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//Another important element in Suarez' decision may have been a conviction that the Socialists--for all their clamoring after a national election--are really unprepared to make a major bid for power now in the midst of persistent economic and security problems.//

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Both major parties are aware that many of the serious problems facing Spain cannot be solved without some degree of consensus. The Socialists are balking, presumably because some party members think the party should act more like an opposition.

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EGYPT: New Price Hikes

In an attempt to cut its budget deficit, the Egyptian Government raised prices yesterday for gasoline and cigarettes, which will reduce government subsidies. At the same time, it tightened security in order to avoid disturbances similar to the nationwide rioting in January 1977 triggered by food price increases. Consumers have reacted with some grumbling but no violence. The government is also planning price hikes on luxury and other nonessential goods, a decision that will be debated today by the ruling National Democratic Party.

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The increases are part of Cairo's efforts to demonstrate to the International Monetary Fund and foreign aid donors that it will pursue economic reforms. Egypt currently is in danger of losing access to \$630 million in credits from the IMF because of its failure to implement austerity measures and fiscal reforms.

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The impact on the 1979 budget deficit of yesterday's price hikes and the additional increases under consideration will not become evident until the budget is completed. Recent Embassy reporting indicates, however, that Egypt is considering only about \$200 million in subsidy cuts--too little to bring the deficit in line with IMF guidelines.

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Yesterday's price hikes may be Cairo's way both of testing the popular mood and of signaling to the IMF and foreign aid donors that any austerity measures involve heavy political risks. The government apparently wants to avoid the mistake it made in January 1977 when prices were raised without any effort to test popular sentiment or prepare for possible protests. Although the mood in Egypt in recent months has been quiescent and relatively upbeat, the government apparently intends to take no chances. Indeed, the existing and proposed price hikes still could be rolled back before--or after--the budget is presented to the People's Assembly on 8 January.

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TURKEY: Special Directorate

Turkish Prime Minister Ecevit has taken steps to present an image of decisiveness amid indications that his declaration of martial law in 13 of Turkey's 67 provinces will soon face its first parliamentary test. Although most of the provinces under military control are quiet, isolated incidents of violence are occurring elsewhere.

Ecevit yesterday convened a newly formed special directorate composed of himself and two top generals to oversee the day-to-day implementation of martial law. Ecevit's involvement in the directorate will help show that the government remains in charge and help mollify the left wing of Ecevit's Republican People's Party, which suffered most during the martial law period in the early 1970s.

It will also help Ecevit cope with a censure motion by the principal opposition party, the Justice Party. Although Justice voted for martial law, it charges that the government waited too long to impose it and is generally incompetent. Ecevit is likely to survive that motion but, with only a two-seat parliamentary majority, he cannot afford to be complacent.

The effectiveness of martial law continues to be tested by isolated incidents of violence. The most serious ones are taking place outside the martial law areas, suggesting that extremists soon may concentrate their efforts there. This would confront Ecevit with another politically risky decision: whether to expand the areas covered by martial law.

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SOUTH YEMEN: Internal Politics

The position of hardline party chief Abd al-Fatah Ismail appears to have been strengthened further by his selection as Chairman of South Yemen's newly created Presidium. Ismail is now de facto head of state.

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The establishment of the Presidium of South Yemen's legislative body, the Supreme People's Council, completes a series of recent changes in the party, legislature, and executive branch that brings the country's structural apparatus closely in line with the Soviet model. The five-man Presidential Council has been abolished, but former President Ali Nasir Muhammad al-Hasani retains his post as Prime Minister. The cabinet changes announced on Wednesday do not affect the more important ministries.

//Ismail's new status should enhance his authority, although some rivalry for power probably will persist.

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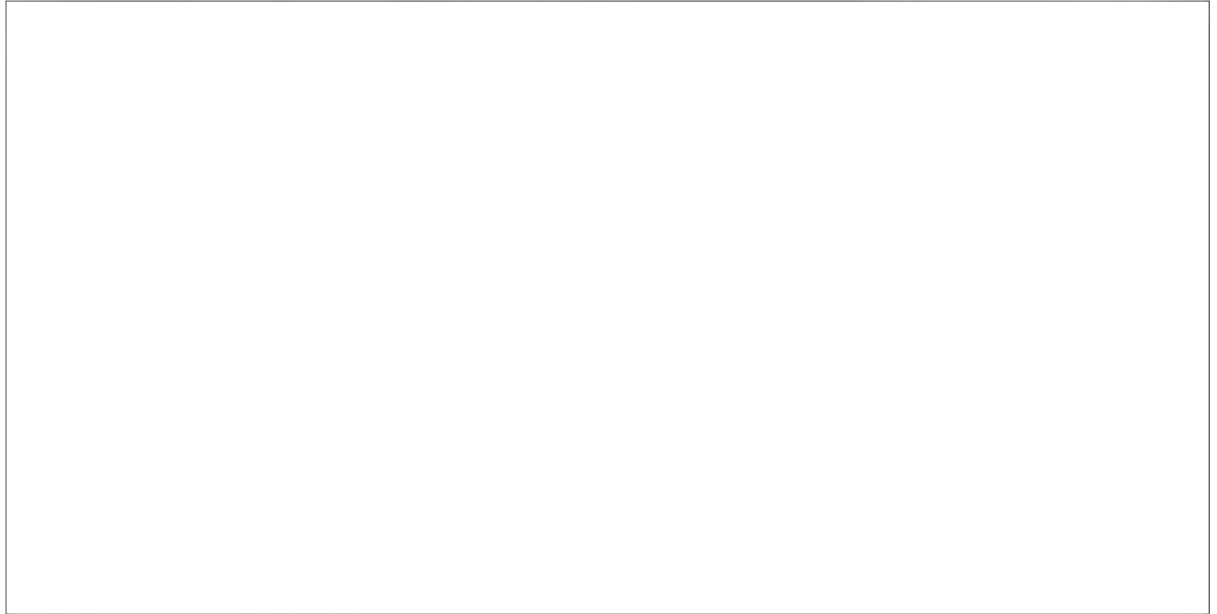
//Such differences may exist on internal matters, but most South Yemeni officials apparently are in full agreement about their country's aggressive posture toward North Yemen.

//Although the Soviets may have some reservations about South Yemen's policy toward the regime in Sana, they probably view with satisfaction the fact that Ismail has consolidated his internal position. Ismail's Marxist orientation and his willingness to cooperate closely with the USSR on many issues are applauded by Soviet leaders.

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West European officials have only recently begun to express concern about the drying up of Iranian oil supplies. The subject of Iranian supplies apparently was not even discussed at the meeting of European Community energy ministers on 21 December, although Community officials in Brussels have been following the impact of Iranian developments for many weeks. They indicate that implementing regulations are in place to permit the Community to monitor and, if necessary, control oil trade. They also would permit the International Energy Agency emergency sharing mechanism to be triggered in eight Community states; France is not a member. [redacted]

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The European Community depends on Iran for an average of 16 percent of its crude oil imports. A spokesman for West Germany, the largest West European importer of Iranian oil, said on Thursday that West German oil supplies would not immediately be endangered because there was enough oil available from other sources to fill the gap. [redacted]

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British
energy officials maintain there is no cause for alarm in
view of existing stocks and North Sea oil production.

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FEATURE ARTICLES

IRAN: The Shah's Options

The nearly total breakdown of Iran's oil production and refining this week, together with a new round of clashes in Tehran and some provincial cities, has brought the country to a virtual standstill. The Shah has turned to yet another opposition figure, Shapur Bakhtiar, to form a civilian government--probably with little chance of success. The Shah's options are narrowing rapidly.

The US Embassy reports the Shah offered the 64-year-old Bakhtiar the post of prime minister on Thursday evening. Bakhtiar has agreed to try to form a new government immediately. The Shah had been considering Bakhtiar for the post for some time, and the Shah has now apparently concluded that the efforts of Gholam Sadiqi--his former candidate--are hopeless.

There is no reason to think that Bakhtiar will be any more successful. Although he has long been associated with the moderate wing of the opposition National Front, Bakhtiar has no large following and is a rival of other Front leaders, notably Karim Sanjabi. Bakhtiar has often been accused of having secret ties with the Shah and many regard him as a maverick.

There is no sign that the Shah offered Bakhtiar any new concessions that might encourage other moderate opposition figures openly to support his efforts. Bakhtiar has no major contacts with the religious opposition, and Ayatollah Khomeini again yesterday denounced any effort to form a civilian government while the Shah remains in power.

A political compromise between the Shah and the opposition is unlikely as long as the Shah refuses to give up control of the military. The major secular opposition figures insist that at a minimum the Shah give up his powers as commander-in-chief. They fear the Shah will eventually be able to regain all his powers if he controls the military.

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25X1 Even if the Shah and Bakhtiar can entice some civilians into forming a new government in which the Shah remains commander-in-chief, we doubt it will end the cycle of periodic upsurges of unrest and strikes that has plagued Iran for almost a year. A temporary cooling off of the situation would be deceptive; the opposition will not wither away. []

25X1 It appears increasingly clear that the Shah now has only two options--he can attempt a brutal repression of the opposition using the military, or he can give in to opposition demands either by giving up control of the military or by abdicating. []

25X1 Moreover, the military is spread very thin. Almost all of the elite units are already committed to putting down disturbances. Other combat forces are showing signs of strain: the infantry division deployed at Mashhad and the armored division at Ahvaz already appear incapable of restoring order in those areas. []

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25X1 Finally, there is no guarantee that the military can force workers to produce. Given the enormous popular support for the opposition and the intimidation of terrorism, workers might not perform even at bayonet point. The opposition could simply avoid a showdown in the streets and continue to try slowly to strangle the government through intermittent strikes and demonstrations. On balance, it seems unlikely a military crackdown would succeed in restoring order. []

25X1 Much will depend in the next few days on the Shah's attitude. The Shah has seemed indecisive for most of the last few months. If he does not act decisively in the days ahead, the situation may well deteriorate further. At least some elements of the opposition are likely to conclude that they are close to victory. []

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25X1 There are some indications that the Shah is considering his own departure from the scene--either temporarily to one of his retreats in Iran or into exile. The Queen Mother and her entourage have already left Tehran and arrived in the US. []

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If the Shah concludes he must give in to the opposition, he will probably try to arrange a transfer of power that will leave some vestige of the monarchy intact--such as a regency council--and seek to preserve the cohesion of the military. The possibility cannot be discounted, however, that he may simply quit the country.

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ISRAEL - SOUTH AFRICA: Iranian Oil

Although Israel and South Africa are heavily dependent on Iran for oil supplies, both countries are well prepared for a short-term interruption of oil imports. Over the longer haul, they both could probably cope with a loss of about half their oil imports from Iran through a combination of alternative suppliers, spot market purchases, and conservation measures.

Since much of the oil would probably be bought at a premium, economic growth in both countries might slow somewhat. Any further reduction or a complete cutoff of Iranian supplies would be much more difficult to deal with. Israel in these circumstances would be sure to invoke its claim to US assistance dating back to the Sinai II accords. Pretoria would be better off since it faces fewer political obstacles than Israel in dealing with Arab countries and might be aided by several major oil companies that own refineries in South Africa.

//Although South Africa relies on Iran for 80 percent of its oil needs, Pretoria has strategic oil stockpiles equal to at least two years' supply at current consumption levels (estimated at 350,000 barrels per day or more). These stockpiles have been built up in the past 10 to 15 years as a precautionary measure against the threat of economic sanctions. Pretoria could also take several measures to stretch out its oil supplies, including rationing and reducing exports of refined products to neighboring countries.//

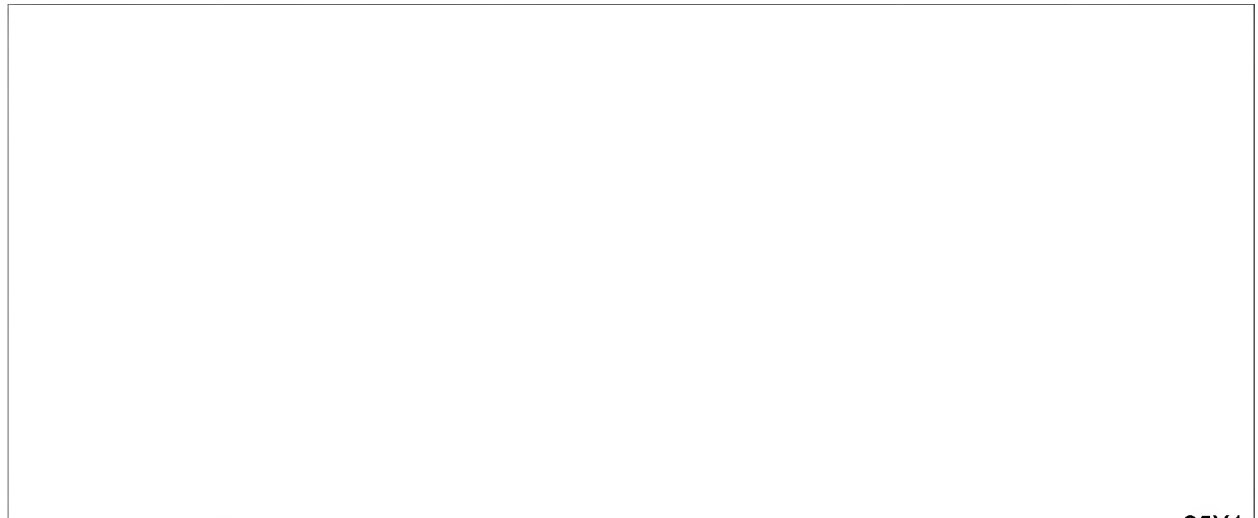
To recoup short-term oil import losses, the government and the oil companies in South Africa have been purchasing crude oil on the spot market

To subsidize these premium-priced imports, South Africa has just raised gasoline prices by 10 percent--more than is needed to cover the recent OPEC price increase. Although Pretoria has yet to take any other measures to raise revenue for oil imports or curtail domestic consumption, it may in the near future tighten its curbs on gasoline sales hours.

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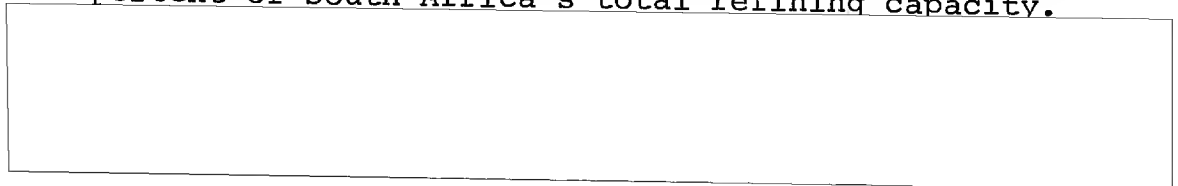
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//Even if Iranian production remains well below normal in 1979, South Africa will benefit in its search for additional long-term crude supplies from the efforts of international oil companies, which account for about 90 percent of South Africa's total refining capacity.

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If South Africa experiences sizable gaps in its oil import requirements in the next year or so, the implications for international shipping for neighboring countries will be significant. Pretoria controls the bunkering facilities in oil ports and has the option of curtailing these supplies; such a move would restrict the large number of ships now using South African facilities while transiting the Cape. South Africa is an intermediary for oil supplies going to Swaziland, Lesotho, and Botswana, and has the option of cutting off supplies to these states. In addition, some 30,000 barrels per day of crude is imported for refining and transshipment to Rhodesia. Despite existing political commitments, Pretoria could feel compelled to limit these shipments.

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